

Message Text

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63

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 TAR-01 IGA-02 AGR-05

STR-04 /096 W

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R 141825Z JAN 76

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 2509

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A

TAGS: ETRD, CS

SUBJECT: POSSIBLE CHANGES TO BANANA TAX SYSTEM

GUATEMALA FOR ROCAP

1. BEGIN SUMMARY. THE COSTA RICAN GOVERNMENT IS CONSIDERING POSSIBLE CHANGES IN ITS SYSTEM OF TAXATION FOR THE BANANA INDUSTRY, TO INCREASE ITS COMPETITIVENESS, AN EMBOFF LEARNED FROM A RECENT CONVERSATION WITH THE KEY BANANA ADVISOR IN THE MINISTRY OF ECONOMY, INDUSTRY AND COMMERCE. END SUMMARY.

2. THE PROPOSED NEW SYSTEM BEING PROMOTED BY THE BANANA ADVISOR WOULD HOLD CONSTANT THE GOVERNMENT'S REVENUE FROM THE BANANA INDUSTRY FOR A PERIOD OF YEARS, THEREBY ENCOURAGING THE INDUSTRY TO EXPAND PRODUCTION. WITH
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CONSTANT TAX PAYMENTS ANBAUJCREAS & PRODUCTION, THE

TAX PER BOX OF BANANAS WOULD FALL, MAKING COSTA RICA MORE COMPETITIVE AS A PRODUCER OF BANANAS. THIS WOULD TAKE ADVANTAGE OF CURRENT FAVORABLE BANANA PRICES AND ENABLE COSTA RICA TO EXPAND OUTPUT OF A PRODUCT IN WHICH IT ENJOYS A COMPARATIVE ADVANTAGE IN TERMS OF PRODUCTION CONDITIONS AND PROXIMITY TO THE MARKET. THE SOURCE IS ALSO APPARENTLY CONCERNED ABOUT POSSIBILITIES THAT NEW EXPORTERS, SUCH AS BRAZIL, WILL ENTER WORLD MARKETS AND, ALTHOUGH HE DID NOT SAY SO, A MORE FAVORABLE TAX REGIME IN COSTA RICA WOULD HELP WARD OFF THAT DANGER.

3. IN RETURN FOR THE MORE FAVORABLE TAX SYSTEM, THE BANANA COMPANIES WOULD BE EXPECTED TO DROP THEIR LEGAL CHALLENGES TO THE CONSTITUTIONALITY OF THE COSTA RICAN BANANA TAX SYSTEM AND TO AGREE TO TERMINATION OF THE "CONTRACT LAWS" WHICH FIX THE CONDITIONS UNDER WHICH THEY OPERATE IN COSTA RICA. GETTING RID OF THE LEGAL CHALLENGE TO ITS TAX AUTHORITY AND ABOLISHING "CONTRACT LAWS" WHICH ARE REGARDED AS A DEROGATION OF COSTA RICAN SOVEREIGNTY WOULD BE CONSIDERED A MAJOR GAIN BY THE COSTA RICAN GOVERNMENT.

4. THE POLITICAL COST OF SUCH A CJW DEAL WITH THE BANANA COMPANIES COULD ALSO BE GREAT. OPPONENTS OF THE GOVERNMENT COULD BE EXPECTED TO CHARACTERIZE THE DEAL AS A SELLOUT AND A BACKING AWAY FROM THE \$1 PER BOX BANANA TAX ONLY SO RECENTLY ACHIEVED. (IN REALITY THE TAX IS ONLY 45 CENTS BUT THE GOVERNMENT ASSERTS THAT ITS SYSTEM YIELDS, IN EFFECT, ONE DOLLAR PER BOX, TO COSTA RICA IN THAT THE PRICE PAID BY BANANA COMPANIES TO INDEPENDENT GROWERS WAS INCREASED BY ABOUT 55 CENTS PER BOX. THIS IS TRUE WITH RESPECT TO SOME GROUPS AND WITH RESPECT THEREFORE TO A PORTION OF THE COSTA RICAN BANANA CROP). BECAUSE OF THIS PROBABLE POLITICAL COST, THE SOURCE IS NOT AT ALL SURE THAT HE WILL BE ABLE TO CONVINCE HIS GOVERNMENT TO ADOPT HIS PROPOSAL, BUT A REVIEW OF THE BANANA TAX SYSTEM WILL TAKE PLACE WITHIN THE NEXT MONTH OR SO AND SOME CHANGES IN BANANA TAXATION MAY EMERGE.

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5. THE EMBASSY IS ALSO SCEPTICAL THAT THE GOVERNMENT WILL BE WILLING TO ADOPT THE SYSTEM DESCRIBED HEREIN, BUT IT IS A HEALTHY SIGN THAT THE GOVERNMENT IS APPARENTLY PREPARED TO GIVE SERIOUS CONSIDERATION TO POSSIBLE MEANS OF MAINTAINING OR IMPROVING COSTA RICA'S COMPETITIVE POSITION AS A BANANA PRODUCER.

6. WITHOUT SOME INCENTIVE OR STIMULUS TO THE INDUSTRY,

THE OUTLOOK IS FOR A GRADUAL DECLINE OF BANANA PRODUCTION
IN COSTA RICA. SOME 1,200 HECTARES OF BANANA LAND WAS
CONVERTED BY UNITED BRANDS TO AFRICAN OIL PALM PRODUCTION
IN 1975 AND ANOTHER PARCEL OF ABOUT THE SAME SIZE IS BEING
GIVEN LIMITED MAINTENANCE THIS YEAR PREPARATORY TO TAKING IT
OUT OF BANANA PRODUCTION. TOTAL BANANA PRODUCTION IN 1975
WAS ABOUT 55 MILLION BOXES AND PRODUCTION IN 1976
IS EXPECTED TO BE ONLY ABOUT 52 MILLION, ACCORDING TO
THE SAME SOURCE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TAX CHANGES, BANANAS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SANJO00177
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760014-0793
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760158/aaaabzhs.tel
Line Count: 125
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 09 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 JUL 2004 by SmithRJ>; APPROVED <13 JUL 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: POSSIBLE CHANGES TO BANANA TAX SYSTEM GUATEMALA FOR ROCAP
TAGS: ETRD, EFIN, CS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006